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Livestock and Products

Semi-Annual Report

2004

Approved by:

William W. Westman, Agricultural Counselor
U.S. Embassy

Prepared by:

Joao F. Silva, Agricultural Specialist

Report Highlights:

Post revised production estimates for beef and pork in 2003 and 2004 to include data obtained from the trade and to reflect new opportunities open for Brazilian beef exporters in 2004 in view of animal health factors, such as BSE in the United States and Avian Influenza in Asia. It also includes major export constraints, which may contribute to a decline in pork production and exports in 2004. No changes were made in cattle or swine numbers.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

The Brazilian economy is expected to improve in 2004 compared to 2003 which was characterized by stagnant economic growth, high rates of unemployment, higher inflation, soaring interest rates, tumbling investments, and drop in real income. The current forecast calls for an economic growth of 3 to 4 percent, with inflation and unemployment rates dropping from last year, which should improve consumer purchasing power.

These optimistic economic indicators combined with new opportunities in the export market derived from animal health problems in other parts of the world will likely contribute to increases in production and exports of beef. However, pork production is estimated to decline in 2004 because of the estimated reduction in pork exports.

Situation and Outlook for Beef

Production

Post projects an increase of 4 percent in beef production in 2004. Production is expected to reach nearly 7.7 million metric tons in 2004, slightly down from our previous estimate made in our annual report. The following factors support our current estimates: a) a rebound in domestic demand of about 2 percent, compared to a decline last year, due an estimated economic growth of 3 to 4 percent, which likely improve employment rates and consumer purchasing power; b) additional funds in the federal budget for social programs to fight hunger and improve nutrition levels of the poor; c) booming export market in view of the impacts of the Avian Influenza crisis in Asia and BSE case in the United States; d) improved pasture conditions due to higher rainfall, mostly in the Center-West of Brazil, during the first quarter of 2004, and greater funds for the National Pasture Improvement Program, and, e) improved profit margins to breeders because of continued favorable prices for cattle.

Review of 2003. According to our trade sources, beef production increased by 2 percent in 2003. In addition to the technological improvement of the Brazilian cattle-raising sector, the major force driving an increase in beef production last year was the booming export market. However, production of beef last year was slightly lower than initially estimated because of the drop in domestic demand due to the high rate of unemployment combined with another drop in real income, and higher retailer prices for beef.

Trade

Post projects beef exports to increase by an average of 15 percent in 2004 from the record volume of nearly 1.2 million metric tons (CWE) in 2003. Our estimates reflect the current optimism among Brazilian beef exporters that Brazil will fill the gap left by the United States in certain world markets. It includes also filling the gap of some markets left by Australia which is expected to concentrate their sales in Japan and Korea. In addition, the following factors are supporting the optimism of Brazilian beef exporters: appreciation of the Euro, favorable domestic exchange rate (an average of R\$3.00 to US\$1.00), on-going negotiations on animal health protocols with Japan, Korea, and other Asian countries, and continued aggressive market promotion efforts, mostly in new markets, to promote the image of Brazilian beef as "clean and green" (grass-fed cattle).

However, the current optimism of Brazilian beef exporters can be temperate by higher competitive beef exports from Argentina and Uruguay, competition with the European Union suppliers in their own market and the possibility of the devaluation of the Euro, possible change in consumer preferences due to the effects of the BSE on beef consumption, and the impact of the Russian beef import quota. Although Brazil is free of BSE, market access in

certain markets, such as Japan and Korea is constrained by the Foot-and Mouth Disease (FMD).

Review of 2003. Final export data show an all-time record in beef exports both volume and value in 2003. The total volume reached nearly 1.2 million metric tons (CWE), an increase of 33 percent from 2002. The export value reached US\$1.5 billion, up 39 percent from the previous year, not only because of the higher volume exported, but also because of an increase in the average export price of 12 percent from US\$2,460 to US\$2,765 per metric ton.

Fresh and Frozen beef cuts (boneless and bone-in) exports (CWE) increased by 44 percent in 2003, and accounted for 72 percent of all the volume of beef exports, while processed beef (mostly corned beef) accounted for 24 percent, and variety beef (offals) for the remaining 4 percent. Note: Variety meat is not included in our export data. In 2003, Brazil exported 47,835 metric tons (product weight) of beef offals, up 44 percent from the previous year.

The major export destinations for fresh and frozen beef in 2003 were: the European Union, which accounted for 25 percent of Brazilian fresh and frozen beef exports in 2003, followed by Chile 15 percent, Russia 13 percent, Egypt 12 percent, and Saudi Arabia 7 percent. New markets for Brazilian fresh and frozen beef in 2003 included Iran with 35,616 metric tons (product weight), an increase of 326 percent from 2002, Bulgaria with 8,533 metric tons, up 185 percent, and Algeria with 8,475 (first time importer). Other important markets for Brazilian fresh and frozen beef are: Saudi Arabia, Kuwait, Lebanon, Israel, Philippines, Hong Kong, and Singapore.

Brazilian exports of processed beef, mostly corned beef, increased by 9 percent in volume and 13 percent in value in 2003 compared to the previous year. Exports of processed beef are highly concentrated (80 percent to two markets): European Union (47 percent) and the United States, including Puerto Rico (33 percent). The remaining 20 percent is exported mostly to Canada, Egypt, and Angola.

Animal Health Update

Brazil has made considerable progress in eradicating Foot-and Mouth Disease (FMD) in the past years. According to government sources, there was no official case of FMD in Brazil since 2001, and that 80 percent of the country is officially free of FMD with vaccination, or about 85 percent of the cattle herd. It is estimated that in 2004, about 92 percent of the cattle herd will be officially free of FMD with vaccination, and in 2005, the entire country.

The Ministry of Agriculture (MAPA) has announced an increase of 42 percent in funds for animal health in 2004, including additional funds for eradication of FMD. The value is estimated at R\$70 million (US\$23 million). The Ministry of Agriculture also donated in early 2004, one million doses of vaccines against FMD to Bolivia and 500,000 doses of vaccines to Paraguay as part of the integrated program to eradicate FMD from the Southern Cone and to prevent FMD outbreaks in countries bordering Southern Brazil.

The Ministry of Agriculture has also chosen Japan, Korea, and Taiwan as priority in terms of animal health negotiations. Brazilian officials also have the United States as another priority and are pressuring the United States government to complete the risk assessment for exporting fresh beef to the United States.

Situation and Outlook for Pork

Production

Post projects a decline of 3 percent in pork production in 2004 as result of the current outlook for a significant decrease in pork exports this year. Hog breeders, however, are optimistic that the projected economic growth and increased consumer purchasing power could drive domestic consumption at higher levels, somewhat offsetting the decline in exports. Decline in production is more evident in the Southern states of Brazil, which account for the bulk of pork exports.

Review of 2003. Post revised production data for last year to reflect a small drop in pork production due to the decision of hog breeders in the Southern states to reduce the supply of hogs because of depressed hog prices, lower pork exports than initially estimated, and a decrease in domestic consumption of pork because of the drop in consumer income and high rates of unemployment.

Trade

Brazil's pork exports are estimated to decline by 30 percent in 2004, basically due to the Russian pork quota system. Although negotiations are still not concluded between the two countries, trade sources believe that Brazil will be able to fill no more than 80 percent of the Russian quota under the category of "other suppliers". In addition to the current negotiations with Russian officials, Brazilian pork exporters are likely to be more aggressive in new markets during 2004 in order to offset the expected drop in exports to Russia. Trade sources also believe that the impact of the Avian Influenza in Asia markets could increase demand for Brazilian pork, as consumers in the region may shift from chicken to pork. If this materializes, it can change the outlook for pork production and exports in 2004.

Review of 2003. Brazil exported 605,000 metric tons (CWE) of pork during 2003, up 2.5 percent from 2002, valued at US\$532 million, up 12 percent from the previous year. Although the volume of pork exports increased by 2.5 percent last year, it was lower than initially estimated by the trade, and the reason was because of lower exports to Russia.

Russia accounted for 65 percent of all pork exported last year despite the decline in the volume exported by 13 percent. Other major markets for Brazilian pork in 2003 were Hong Kong with an increase of 11 percent, followed by an increase of 6 percent to Argentina. Brazil also increased significantly pork exports to non-traditional markets in 2003, such as Georgia, nearly 600 percent, China 90 percent, Singapore 128 percent, and South Africa over 900 percent.

PSD Table, Meat, Beef and Veal

PSD Table Country Brazil Commodity Meat, Beef and Veal (1000 MT CWE)(1000 HEAD)								
	2002	Revised	2003	Estimate	2004	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY	
Slaughter (Reference)	33519	33519	34398	34398	35843	36343	(1000 HEAD)	
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)	
Production	7240	7240	7530	7385	7850	7680	(1000 MT CWE)	
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)	
Total Imports	78	70	70	63	80	70	(1000 MT CWE)	
TOTAL Imports	78	70	70	63	80	70	(1000 MT CWE)	
TOTAL SUPPLY	7318	7310	7600	7448	7930	7750	(1000 MT CWE)	
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)	
Total Exports	881	881	1140	1174	1370	1350	(1000 MT CWE)	
TOTAL Exports	881	881	1140	1174	1370	1350	(1000 MT CWE)	
Human Dom. Consumption	6437	6429	6460	6274	6560	6400	(1000 MT CWE)	
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)	
TOTAL Dom. Consumption	6437	6429	6460	6274	6560	6400	(1000 MT CWE)	
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)	
TOTAL DISTRIBUTION	7318	7310	7600	7448	7930	7750	(1000 MT CWE)	
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)	
Calendar Yr. Exp. to U.S.	83	90	120	95	140	100	(1000 MT CWE)	

PSD Table, Meat, Swine

PSD Table Country Brazil Commodity Meat, Swine (1000 MT CWE)(1000 HEAD)								
	2002	Revised	2003	Estimate	2004	Forecast	UOM	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]		
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY	
Slaughter (Reference)	28098	28098	28490	28490	29260	29260	(1000 HEAD)	
Beginning Stocks	0	0	0	0	0	0	(1000 MT CWE)	
Production	2565	2565	2600	2560	2670	2485	(1000 MT CWE)	
Intra EC Imports	0	0	0	0	0	0	(1000 MT CWE)	
Total Imports	0	0	0	0	0	0	(1000 MT CWE)	
TOTAL Imports	0	0	0	0	0	0	(1000 MT CWE)	
TOTAL SUPPLY	2565	2565	2600	2560	2670	2485	(1000 MT CWE)	
Intra EC Exports	0	0	0	0	0	0	(1000 MT CWE)	
Total Exports	590	590	620	605	650	425	(1000 MT CWE)	
TOTAL Exports	590	590	620	605	650	425	(1000 MT CWE)	
Human Dom. Consumption	1975	1975	1980	1955	2020	2060	(1000 MT CWE)	
Other Use, Losses	0	0	0	0	0	0	(1000 MT CWE)	
TOTAL Dom. Consumption	1975	1975	1980	1955	2020	2060	(1000 MT CWE)	
Ending Stocks	0	0	0	0	0	0	(1000 MT CWE)	
TOTAL DISTRIBUTION	2565	2565	2600	2560	2670	2485	(1000 MT CWE)	
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT CWE)	
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT CWE)	